

An Alternative Plan to Reform Welfare Programs

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I. Introduction

The war on poverty in the United States was declared in 1964. More than a decade has now passed, and it has become possible to evaluate the degree to which the war on poverty has succeeded. Numerous antipoverty policies were planned and undertaken as part of the war on poverty. Income maintenance policies for low-income people were also implemented and rapid changes in the welfare programs were made. Many of these policies and program changes, however, occurred not as explicit part of the antipoverty plans. Although many of these changes and their effects were largely unanticipated, the development in welfare programs contributed fairly to the reduction of poverty. The incidence of poverty declined from one out of five Americans to one out of nine in the 1964–1973 decade. The marked decline in the size of poverty population is likely to lead to some optimism about the poverty problem in the United States. And public interest in poverty issues seems to dissipate easily. However, there were still 23 million poor people in 1973. In addition, there are substantial number of the “near poor” which could easily become the real poor in less favorable times.

To understand the poverty problem, the following questions must be answered: what are the causes of poverty in the United States and what policies will eliminate impoverishment? These two questions are closely related because how effective antipoverty policies are will depend partly on how accurately we have identified the roots of impoverishment. In this paper, I will focus on the labor status of the poor among major causes of poverty because, for the most part, in a market economy it is a person's relationship to the market that determines his economic status. Based on the analysis of the labor status of the poor, I will attempt to propose an alternative antipoverty plan. This plan is deliberately designed to promote the low-income earner's work

incentive which is one of the most important issues of welfare plans.¹⁾

In Section II, I will review the recent development of welfare programs and examine briefly their current situation. Section III evaluates how much the growth of welfare programs contribute to reduce poverty in the United States, giving the statistical profile of the poor. Then, in Section IV, I will focus on the labor status of the poor as a cause of poverty. In Section V, I will propose an alternative welfare plan and examine its main characteristics, comparing it with the other two types of welfare plans, that is, a wage subsidy and a negative income tax. Section VI is a concluding section.

II. The development of welfare programs

Welfare programs that provide assistance on the basis of need alone are composed of two distinctly different kinds of assistance. Some programs provide cash assistance to the poor, while others provide in-kind assistance — things like housing, food, and medical services. To begin with, let us consider the recent development of cash assistance programs.

Although many changes were made in the categorical programs in a relatively short time, few were intended by either the President or Congress to generate increases in program coverage, in real benefit levels, or in the proportion of citizens eligible to receive benefits.²⁾ Nevertheless, these cash assistance programs grew rapidly. *Table 1* shows the growth of the three major cash assistance programs: the Supplemental Security Income (SSI), the Aid to Families with Dependent Children (AFDC), and the General Assistance (GA). The federal SSI program was introduced in July 1973, and took the place of the three previous programs: the Old Age Assistance, the Aid to Blind, and the Aid to the Permanently and Totally Disabled. The federal-state AFDC payments are reserved for fatherless families, regardless of whatever needs poor male-

1) See Yokota (1976) and (1977).

2) There were several welfare proposals designed to reform the existing welfare systems. For example, FAP, HR1, Long plan, Demogrants and ABLE. But all of these plans failed to surmount political difficulties. See Aaron (1973), Bowler (1974), Haveman (1972), Kershaw (1970) and Moynihan (1973).

Table 1. Cash Assistance Programs

| Program | 1968 | | 1972 | | 1975 | |
|--|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
| | number of recipients | total annual payment | number of recipients | total annual payment | number of recipients | total annual payment |
| | million | billion dollars | million | billion dollars | million | billion dollars |
| Old Age Assistance (OAA) | 2.3 | 1.67 | 2.1 | 1.19 | 4.2 (SSI) | 5.7 (SSI) |
| Aid to Blind (AB) | .1 | .09 | .1 | .10 | | |
| Aid to the Permanently & Totally Disabled (APTD) | .9 | .66 | 1.1 | 1.25 | | |
| Aid to the Families with Dependent Children (AFDC) | 8.0 | 2.82 | 11.1 | 6.71 | 11.4 | 8.9 |
| General Assistance (GA) | .8 | .40 | 1.0 | .86 | 1.0 | 1.1 |

Sources: President's commission on Income Maintenance Programs (1970) p. 115, Joint Economic Committee (1972) p. 9 and Schiller (1976) p. 169.

head families may have.³⁾ The GA is operated solely under state and local auspices to provide help to those who are poor but do not fit one of the other two categories.

The growth in cash assistance programs, primarily in the AFDC and the Aid to the Disabled programs, was neither planned nor anticipated. According to Haveman, the sources of this growth are as follows: 1) increased leniency on the part of welfare administrators, 2) expanded rights and entitlements stemming from the initiatives of organized groups of recipients and legal rights activists, more liberal court interpretations of beneficiary rights and entitlements, 3) the raising of state supplemental benefits, and 4) reduced stigma attached to being on welfare.⁴⁾ Regardless of the sources of this growth,

3) An exception to this rule is the AFDC-UF program, which provides benefits to poor families with unemployed fathers, but the program is too small and restrictive to merit attention here.

4) See Haveman (1977) pp. 7-8.

it contributed fairly to the reduction of poverty.

Table 2. In-kind welfare program, 1974

| Program | Number of recipients | Average benefit per recipient | Total annual payment |
|------------------------|----------------------|-------------------------------|----------------------|
| | million | dollars/mo | billion dollars |
| Food Stamps | 12.7 | 21.00 | 3.2 |
| Medicaid | 28.0 | 26.25 | 8.9 |
| Public Housing | 3.3 | 30.30 | 1.2 |
| School Lunch Program | 24.7 | 6.07 | 1.8 |
| Commodity Distribution | 2.0 | 12.50 | 0.3 |

Source: Schiller (1976) p.180

Source: Schiller (1976) p. 180

The in-kind programs also blossomed. Let us review a few major in-kind programs. The most familiar in-kind program, the Food Stamp Program, became a considerable program of assistance to all low-income families.⁵⁾ Even larger than the Food Stamp Program is Medicaid, the program that provides medical services to the poor. The health care program for the aged, Medicare, was passed in 1965. Since then the program grew rapidly and in 1973 nearly all public welfare recipients made some use of Medicaid, as did many others who had income just above the poverty standard. Public housing for low-income families also grew quickly. *Table 2* depicts the total cost and the number of recipients associated with the three major in-kind programs. Just on the basis of these in-kind programs, we may conclude that the noncash benefits available to poor families are substantial. Hence, the combination of both cash and in-kind assistance is fairly capable of lifting a family out of poverty.

Although the development of welfare programs helps improve the economic status of the poor, it deteriorates the complexities of welfare systems. Welfare programs are built mainly around specific categories of

5) The food stamp program began in 1964 as a program designed primarily to stabilize and support farm commodity prices. See Nathan (1975).

people; hence some poor families are not aided at all. A number of programs have state-determined eligibility requirement and benefit levels; hence equally poor families of the same structure may be treated differently depending on their living locations. These programs contain incentives that discourage recipient's work effort. Because of the fragmentary nature of the programs, there are serious administrative inefficiencies and equally serious ineffectiveness in targeting of benefits on the most needy family units.

In spite of these drawbacks of the welfare programs, the volume of cash and, in particular, of in-kind transfers has experienced unprecedented growth. And, while only the former contributes to a reduction in measured poverty, both have augmented the economic well-being of those at the bottom of the income distribution.

III. The decline in the size of poverty population

How much did the growth of welfare programs contribute to reduce poverty? There were some 36 million persons in poverty in 1964.⁶⁾ Nearly one out of five Americans was poor. This was ample evidence that poverty in the United States deserved special public concern. *Table 3* shows that the prevalence of poverty in the United States has diminished remarkably in the 1964–73 decade.

Table 3. Persons with Incomes below the Poverty Level, 1964–73

| | 1964 | 1965 | 1966 | 1967 | 1968 | 1969 | 1970 | 1971 | 1972 | 1973 |
|---|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Persons below poverty-level income (in thousands) | 36,055 | 33,185 | 28,510 | 27,769 | 25,389 | 24,147 | 25,420 | 25,559 | 24,460 | 22,973 |
| Percentage of total population | 19.0 | 17.3 | 14.7 | 14.2 | 12.8 | 12.1 | 12.6 | 12.5 | 11.9 | 11.1 |

Source: U.S. Department of Commerce, *Current Population Reports*. Series P-60, No. 98, January 1975 Table 1.

6) A good comprehensive view of the poverty problems in America is given by the President's Commission on Income Maintenance Programs (1970) and Weisbrod (1965).

The marked decline in the number of poor persons during the 1964–73 decade might be considered as a legitimate foundation for some optimism about the poverty problems in the United States.⁷⁾ But this optimism is subject to some constraints. Although this optimism is likely to lead to an attitude of public self-satisfaction toward the poor, such an attitude is not justified. Unless we know the reasons for this decline in poor people, we have no basis for expecting the downward trend to continue. We should also note that a reduction in poverty is not necessarily accompanied by a reduction in income inequality. Actually, in spite of the rapid growth in cash assistance programs and other social welfare expenditures, the money income distribution in the United States has not become notably more equal (See *Table 4*).

Table 4. Share of Aggregate Income Received by Families and Unrelated Individuals 1964–72

| | (in percentage) | | | | | | | | |
|------------------------------|-----------------|------|------|------|------|------|------|------|------|
| | 1964 | 1965 | 1966 | 1967 | 1968 | 1969 | 1970 | 1971 | 1972 |
| Families | | | | | | | | | |
| Lowest fifth | 5.2 | 5.3 | 5.4 | 5.4 | 5.7 | 5.6 | 5.5 | 5.5 | 5.4 |
| Second fifth | 12.0 | 12.1 | 12.4 | 12.2 | 12.4 | 12.3 | 12.0 | 11.9 | 11.9 |
| Middle fifth | 17.7 | 17.7 | 17.7 | 17.5 | 17.7 | 17.6 | 17.4 | 17.4 | 17.5 |
| Fourth fifth | 24.0 | 23.7 | 23.8 | 23.7 | 23.7 | 23.5 | 23.5 | 23.7 | 23.9 |
| Highest fifth | 41.1 | 41.3 | 40.7 | 41.2 | 40.6 | 41.0 | 41.6 | 41.6 | 41.4 |
| Unrelated Individuals | | | | | | | | | |
| Lowest fifth | 2.4 | 2.6 | 2.9 | 3.0 | 3.2 | 3.2 | 3.3 | 3.4 | 3.3 |
| Second fifth | 7.1 | 7.6 | 7.6 | 7.5 | 7.8 | 7.8 | 7.9 | 8.1 | 8.2 |
| Middle fifth | 12.8 | 13.5 | 13.3 | 13.3 | 13.8 | 13.8 | 13.8 | 13.9 | 13.8 |
| Fourth fifth | 24.5 | 25.1 | 24.2 | 24.4 | 24.4 | 24.3 | 24.5 | 24.2 | 23.9 |
| Highest fifth | 53.1 | 51.2 | 52.0 | 51.8 | 50.8 | 51.0 | 50.5 | 50.4 | 50.9 |

Source: U.S. Department of Commerce, *Current Population Reports*, Series P-60, various issues.

Although the poverty population has decreased considerably, there were 23 million poor people in 1973, which were still too many. In addition, there

- 7) One optimistic view is Haveman's. He says "Because of the rapid growth in cash and in-kind transfer programs income poverty as conventionally defined is no longer the serious problem that it was in the early 1960." See Haveman (1977) p. 10.

is a substantial number of the "near poor" which are likely to become the real poor in less favorable times. It should be noted that the numbers we have used here to describe the size of poverty population tell only one aspect of the poverty problems in the United States. They fail to tell us the whole story of poverty. For example, an increase in income from below the poverty line to slightly above it hardly constitutes an escape from poverty and, furthermore, may be quickly reversed. In addition, some measure of poverty covering more than a one-year period is more appropriate and useful in identifying the incidence of chronic poverty. To understand the poverty problems and to design an effective antipoverty plan, we must examine the causes of poverty.

IV. The labor force status of the poor

The formulation of antipoverty policies requires one to know at least three major characteristics of the poor, i.e., age and family status, geography and residence, and labor force status. Although the first two characteristics are important considerations of policy making, I will not discuss them here because I think that labor market forces are primarily responsible for the extent of poverty. My main concern is to examine the potential of the poor to participate in a labor market and to work more hours.

In observing the labor force status of the poor, there are some striking tendencies which counter to one's expectation (See *Table 5*). First of all, male heads of poor families are very much part of the labor force. Indeed, 82 percent of them are either working or actively seeking employment.⁸⁾ Secondly, female heads of poor families do not participate considerably, but their participation is far from negligible, especially in consideration of their greater household responsibilities. Why are these families poor in spite of their extensive labor force participation? This is the problem of the so-called

8) To be "in the labor force" signifies that a person is either employed or that he is actively seeking employment ("unemployed"). Also included in this category are persons who are temporarily not working because of illness, bad weather, vacation, or a labor-management dispute.

Table 5. Labor Force Status of Poor and Nonpoor Families, 1973

| Population | In the Labor Force | Out of Labor Force |
|--------------------------------------|--------------------|--------------------|
| All families | | |
| Nonpoor | 81 % | 19 % |
| Poor | 47 | 53 |
| Aged families | | |
| Nonpoor | 19 | 81 |
| Poor | 11 | 89 |
| Male-headed families with children | | |
| Nonpoor | 95 | 5 |
| Poor | 82 | 18 |
| Female-headed families with children | | |
| Nonpoor | 60 | 40 |
| Poor | 41 | 59 |

Source: Schiller (1976) p.33.

“working poor.”

We may have a few explanations for the economic status of the working poor. Among them, the most persuasive explanation may be that their wages are unusually low. A person may also come to poverty if his family's need exceeds its income. Thus, it might also be the case that the poor simply have above average needs, due to either larger families or special expenses, e.g., medical bills. To the extent that the poor do have larger families, they require, of course, higher wages. The distinction between income and needs is essential for policy concern.

While increases in the minimum wage have reduced the number of people earning low wages, in 1973 there were still 8 million year-round full-time workers earning less than \$5,000 a year and many part-time workers earning still less.⁹⁾

9) The minimum hourly wage rate rose from \$1.40 in 1967 to \$1.60 in 1968, \$2.00 in 1974, \$2.10 in 1975, and \$2.30 in 1976. Recently, Congress voted to boost the minimum wage from its present \$2.30 an hour to \$2.65 next January, \$2.90 in 1979, \$3.10 in 1980, and \$3.35 in 1981.

Accordingly, it can be concluded that low-wage workers are still abundant. They are not reduced to poverty as long as they have slightly smaller families or none at all, or keep more family members in the labor force for longer periods of time. In less favorable times, however, their family may become easily part of the poverty population.

Why are wages of the poor so low? Some available explanations based on the supply side of the labor market are that the poor are undereducated, under-skilled, inexperienced and geographically handicapped. Removal of these difficulties is the main objective of employment and manpower policies, which will not be discussed here. To understand the process of wage determination, we must also examine the demand side of the labor market.

There are two possible demand side explanations: the structural change of demand and the dual labor market hypothesis. Since 1940s, the structure of demand has primarily benefited workers with higher education and expert skill. Correspondingly, the unskilled, semiskilled and operative workers were in excess supply and their wages remained low, so that they were heavily represented among the poor. Most of the poor suffered from the structural change of demand partly caused by the society's past and current manpower utilization decisions.

It is argued that the poor participate in a separate and distinct labor market, a secondary labor market, which is distinguished from the primary labor market. According to the dual labor market hypothesis, an expansion of demand (due to fiscal and monetary policies) that occurs in the primary market will not benefit workers in the secondary market. In other words, the existence of the secondary labor market might prevent the benefits of increased demand from "trickling down" to the poor.¹⁰⁾

The role of the structural characteristics of labor market, i.e., domination of skilled and well-educated workers, strong labor union power, minimum wage legislation, restrictions on entry to certain occupations, racial discrimination, which contribute to the formation of the secondary labor market, is likely to receive increased political attention. While policies designed to

10) The expression "trickling down" was coined by Anderson (1964).

improve the functioning of the labor market are necessary, these policies seem quite difficult to perform and they take a longer time to be effective. As a fundamental reform of these characteristics is becoming difficult to accomplish, policies designed to supplement the effects of the labor market, including a wage subsidy, appear increasingly attractive.

V. An alternative welfare plan

In this section, I consider a welfare plan designed to improve the economic status of the poor, in particular, the working poor. In terms of benefit formula, at least two types of income maintenance plans can be enumerated; a negative income tax (NIT) and a wage subsidy (WS). I discuss briefly both of these plans and then propose an alternative welfare plan, placing emphasis on the problem of work incentives of low-wage workers.

Under an NIT, the minimum guaranteed income is paid as benefits to a recipient if he has no other income in a specific period. If he earned some income, the benefit payment is reduced by some proportion of the income (i.e., the offsetting tax rate). Thus for an offsetting tax rate of less than 100 percent, as earned income increases disposable income also increases. This feature allows for positive work incentives.¹¹⁾

Under a WS, a subsidy varies with the hourly wage rate rather than with recipient's earned income. And it varies directly with the number of hours worked. A WS formula is as follows;

$$B = s(W_b - W)H \quad \text{if } W_b > W,$$

where B = the benefits, s = the subsidy rate, W_b = the break-even wage rate at which a subsidy is zero, W = the market hourly wage rate, and H = the hours worked.

The typical NIT plans are negative in the aggregate in sense that they result in a net transfer of income to a recipient, but all are positive at the margin in sense that as a recipient earns money, a portion of each dollar so earned is taxed at a positive rate. On the contrary, a WS is negative at the

11) A good analysis of the NIT structure is provided in Green (1973), especially in Ch. 4-6.

margin, and it does not set the minimum guaranteed level of income. In other words, a WS taxes an earned income with a progressive negative tax rate. By increasing the rate of pay per unit of time (e.g., an hour worked), a WS makes leisure more "expensive." In that sense, a WS is less injurious or more favorable to work incentives than is an NIT. However, a WS plan might pay substantial benefits to those who work long hours but are not poor unless his eligibility were related to earned income; if it guaranteed a relatively high wage, it would tax a wage increase heavily, thus reducing a worker's incentive to look for a higher paying job and to invest in human capital.

Next, I will consider an alternative welfare plan which aims primarily to help the low-wage workers. This plan is a kind of compromise between an NIT and a WS and it is designed to remove the disadvantages of these two plans. This alternative welfare plan has the following benefit formula;

$$\begin{array}{ll} B = G & \text{if } H \leq H_g \\ B = G - t(H - H_g) & \text{if } H > H_g \end{array}$$

subject to

$$\begin{array}{ll} H_g = f(W) & f' < 0 \\ t = g(W) & g' > 0 \end{array}$$

where B = the benefits, G = the guarantee (the maximum benefits), H = the hours worked, H_g = the hours worked at which the maximum benefits are paid (the ceiling hours), t = the offsetting tax rate, and W = the hourly earnings. Some other elements can be derived from the above benefit formula. Y_g is the level of earnings at which the maximum benefits would be paid, i.e., $Y_g = W \cdot H_g$. H_r is the hours worked above which no benefit would be paid, i.e., $H_r = G/t + H_g$. And Y_r is the level of earnings at which all benefits are eliminated, that is, the break-even level of earnings. Y_r equals W times H_r .

Table 6 shows an illustrative example where $G = \$2,300$, $t = -1.0 + 0.6W$ and $H_g = 300/(-1.2 + 0.6W)$. We can easily find several distinctive features from the other two types of benefit formulas. Under an alternative plan, unlike a WS, the offsetting tax rate is not fixed, but it varies directly with hourly earning, W . A new element, H_g , is introduced into the benefit formula.

Hg varies inversely with hourly earnings, therefore, the implicit tax rate on net earnings due to increases in hours worked is increased.

This plan has several notable characteristics. First, it differentiates between hours worked and hourly earnings in determining benefit levels. The chief consequence is that, even if their total earnings are the same, a worker who is employed more hours at lower hourly earnings than another worker will receive more benefits. On the other hand, under an NIT, if their total earnings

Table 6. Work Incentive Benefits with Maximum Annual Benefits of \$2,300 for a Family of Four by Hourly Earnings and Hours Worked

(All amount in dollars)

| W | Hours worked per year | | | | | | | t | hrs Hg | Yg | hrs Hr | Yr |
|-----|-----------------------|-------|-------|-------|-------|-------|-------|-----|-----------|-------|-----------|-------|
| | 100 | 250 | 500 | 750 | 1,000 | 1,500 | 2,000 | | | | | |
| 2.5 | 2,300 | 2,300 | 2,300 | 2,300 | 2,300 | 2,050 | 1,800 | 0.5 | 1,000 | 2,500 | | |
| 3.0 | 2,300 | 2,300 | 2,300 | 2,100 | 1,900 | 1,500 | 1,100 | 0.8 | 500 | 1,500 | | |
| 3.5 | 2,300 | 2,300 | 2,116 | 1,841 | 1,566 | 1,016 | 466 | 1.1 | 333 | 1,116 | | |
| 4.0 | 2,300 | 2,300 | 1,950 | 1,600 | 1,250 | 550 | 0 | 1.4 | 250 | 1,000 | 1,893 | 7,572 |
| 4.5 | 2,300 | 2,215 | 1,790 | 1,365 | 940 | 90 | 0 | 1.7 | 200 | 900 | 1,553 | 6,988 |
| 5.0 | 2,300 | 2,126 | 1,601 | 1,076 | 551 | 0 | 0 | 2.1 | 167 | 835 | 1,262 | 6,310 |
| 5.5 | 2,300 | 2,043 | 1,443 | 843 | 243 | 0 | 0 | 2.4 | 143 | 787 | 1,101 | 6,056 |
| 6.0 | 2,300 | 1,957 | 1,288 | 613 | 0 | 0 | 0 | 2.7 | 125 | 750 | 977 | 5,862 |

Note: The formula for computing the benefits is $B = G - t(H - H_g)$ if $H > H_g$, ($B = G$ if $H < H_g$) where $t = -1.0 + 0.6W$, $H_g = 300 / (-1.2 + 0.6W)$ and $G = \$2,300$. The symbol B represents the benefits; G, the guarantee (the maximum benefits); H, the hours worked; W, the hourly earnings; t, the offsetting tax rate; Hg the hours worked at which the maximum benefits are paid (ceiling hours); Yg, the ceiling income; Hr, the hours worked above which no benefit would be paid (break-even number of hours worked); Yr, the break-even level of earnings.

are the same, both workers are subject to the same offsetting tax rate regardless of their hours worked and their hourly earnings. Accordingly, under this alternative plan, fewer workers would withdraw completely from the labor force than would be induced to do so by the usual NIT.

Secondly, the benefit formula is not that of a WS, since benefits do not at any point increase with earnings. In a WS formula, the element of Hg is not

included specifically. It is suggested, however, to set some ceiling hours worked or ceiling earnings so as to restrict from making generous benefit payments. Such a kind of ceiling hours worked (or ceiling earnings) is usually fixed. In the new benefit formula, H_g , hence, Y_g is changeable depending on the hourly earnings. It is appropriate that H_g is longer for a low-wage worker than a high-wage worker. By introducing H_g into the benefit formula, it become possible to set the break-even number of hours worked, H_r , hence the break-even level of earnings, Y_r .

Third, the new welfare plan can become a unitary system within some limitations. This fact means that all people within the system can be treated alike.¹²⁾ On the contrary, a WS does need another welfare program which is directed mainly at those who cannot work or find jobs.

This alternative welfare plan encourages earners to work additional hours, and offers low-wage workers great incentives to supplement the federal grant with earnings. Especially, it is likely to attract potential low-wage and part-time workers into the labor force. Because the new plan can be a unitary system, it would be possible to simplify the complicated welfare systems.¹³⁾ A comprehensive welfare system would be more favorable to fiscal responsibility and administrative efficiency. Although a binary system affects decisions about such basic matters as marriage or the combination and number of children, this plan might reduce incentives to alter such family arrangements.

However, this welfare plan has several shortcomings. First, it reduces somewhat a worker's incentive to increase his hourly earnings if he works more than H_g . This might discourage effort to improve his skill, or to move a higher wage paying firm. It is, however, probably less injurious than a WS in this respect. At any rate, this plan, like any other welfare plans, could not solve the work incentive problem completely. Second, the benefit formula of this alternative plan requires two sets of implicit parameters: t and H_g

12) In a binary system, one system would be directed primarily at those who cannot work or find suitable employment due to disability, old age etc, and the other system would be directed toward those who can find satisfactory work.

13) The difficulties stem from the failure of reform efforts adequately to come to grip with the interrelatedness of numerous assistance programs.

and data on both hours worked and hourly earnings in determining benefit levels. This plan may also encourage collusion between employers and employees to under-report hourly earnings and over-report hours worked. A benefit formula based solely on earnings, like an NIT, avoids this problem, but fails to distinguish between hours worked and earnings in the determination of benefits. As a result, an NIT might reduce work incentives of low-wage and part-time workers. Third, the new plan might need another administrative organization to measure and evaluate the individual hourly earnings and hours worked because the present systems could not fulfil such functions.

VI. Conclusion

Since mid-1960s, the welfare programs in the United States have grown rapidly. This development of welfare programs contributed fairly to the reduction of poverty. While the decline on the size of poverty population is considerable, there are still many poor and near poor people. I focussed on the labor status of the poor among the major causes of poverty. If deficient demand for labor and the resultant unemployment are major causes of poverty, most poverty could be eliminated as long as everyone could be provided with employment. However, there are many so-called working poor people and many poor people who are "unemployed" do work. In fact, a striking characteristic of the poor is that many of them are repeatedly engaged in part-time or part-year work. Hence, we can quickly reject the naive assumption that employment automatically lifts one out of poverty.

Why are these people poor in spite of their extensive labor force participation? The most persuasive explanation is that the wage of the poor are unusually low. Poor people are usually undereducated, underskilled, geographically handicapped and so on. These explanations for low-wage are based on the supply side of the labor market. There are two possible explanations based on the demand side of the labor market: the structural change of labor demand and the dual labor market hypothesis. Both the structural change of demand and the existence of the dual labor market aggravate the smooth functioning of the labor market. As a fundamental reform of the labor market is increasingly difficult to accomplish, policies designed to supplement

the effects of the labor market appear more attractive.

I proposed then an alternative plan whose main purposes are to supplement low-wage income and to provide workers with a strong work incentive. This plan's principal idea is based on the fact that the tax rate need not be the same on increases in earnings from longer working hours as on increases from higher hourly wages. In other words, this plan differentiates between hours worked and hourly earnings in determining benefit levels, so that even if their total earnings are the same, a worker who is employed more hours at lower hourly earnings than another worker will receive more benefits. It would encourage short-time workers to work additional hours, and offers low-wage workers a great incentive to supplement the federal grant with earnings. In addition, since this plan can be a unitary system, it would be possible to help simplify the complicated welfare systems.

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